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DAVIS

# Davis Distributing Limited

# Annual Report 1974

DAVIS Davis Distributing Limited

| | |
|---|---|
| *Directors:* | B. Davis<br>S.D. Vader<br>I.J. Grosman<br>J.C. McCartney<br>T.J. Gowland |
| *Officers:* | B. Davis, *President*<br>T.J. Gowland, *Vice-President*<br>S.D. Vader, *Secretary Treasurer* |
| *Subsidiary:* | Young-Robertson (Guelph, Ontario) |
| *Transfer Agent and Registrar:* | The Metropolitan Trust Company<br>Toronto, Ontario |
| *Co-Transfer Agent:* | The Morgan Trust Company<br>Montreal, Quebec |
| *Banking:* | Bank of Montreal, Toronto |
| *Auditors:* | Richter, Usher & Vineberg<br>Chartered Accountants, Toronto |
| *Legal Counsel:* | McCarthy & McCarthy<br>Barristers & Solicitors, Toronto |

DAVIS Davis Distributing Limited

## REPORT TO THE SHAREHOLDERS

The annual report for the year ended June 30, 1974 includes consolidated financial statements of Davis Distributing Limited and its subsidiaries, Young-Robertson Limited and Nathan Davis Vending Limited. It also includes the results of ownership of the McDermott Discount Stores and Drug Marts for a 7½ month period.

Sales increased slightly to $22,308,250. However, consolidated earnings from continuing operations decreased to 8.9¢ per share from 36.2¢ per share last year. This was due mainly to losses in the retail stores and much higher interest costs.

During the year management decided to discontinue the distribution of high fidelity loudspeaker systems due to the disappointing sales and unexpected problems with the quality and resulting losses. This decision necessitated the clearance of inventories. It was also decided to sell the McDermott companies back to the original owners because of unexpected losses in the chain which were both substantial and continuing. Certain McDermott Discount Stores were purchased from the companies by Davis Distributing Limited and brought under new management. Merchandising changes have been made and results are improving.

Due to the very disappointing results of these new business ventures, management decided to discontinue them as quickly as possible rather than to continue the losing enterprises. The operating losses and the cost of discontinuing these businesses amounted to $530,199.

It is anticipated that the company will again continue to be profitable this year as it has been for many years. The net earnings of the Company for the first quarter ended September 30, 1974 are $45,118 on sales of $5,557,574 or 9.1¢ per share.

On behalf of the Board

B. DAVIS,
President.

November 25, 1974

**DAVIS** Davis Distributing Limited

## CONSOLIDATED BALANCE SHEET

| ASSETS | June 30 1974 | June 30 1973 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash | $ 123,006 | $ 53,270 |
| Accounts receivable | 1,786,484 | 2,203,729 |
| Inventories, at the lower of cost or net realizable value | 2,300,006 | 1,633,963 |
| Prepaid expenses and sundry assets | 69,954 | 60,929 |
| Income taxes refundable | 123,842 | 39,918 |
| | $4,403,292 | $3,991,809 |
| **FIXED ASSETS** — Note 2 | | |
| Land, building, equipment, vehicles and leasehold improvements | $ 567,236 | $ 501,951 |
| Accumulated depreciation | 173,591 | 153,369 |
| | $ 393,645 | $ 348,582 |
| **EXCESS OF COST OVER BOOK VALUE OF BUSINESSES AND SUBSIDIARY ACQUIRED** | $ 71,388 | $ 71,388 |
| | $4,868,325 | $4,411,779 |
| **LIABILITIES** | | |
| **CURRENT LIABILITIES** | | |
| Bank advances — Note 3 | $1,110,000 | $ 960,000 |
| Accounts payable and accrued liabilities | 2,672,062 | 1,841,608 |
| Current portion of mortgage payable | 5,000 | 5,000 |
| Income taxes payable | 12,328 | 67,706 |
| | $3,799,390 | $2,874,314 |
| **LONG TERM** | | |
| 7% Mortgage payable — Note 4 | $ 14,132 | $ 19,891 |
| Note payable — Note 5 | 37,500 | |
| | $ 51,632 | $ 19,891 |
| **SHAREHOLDERS' EQUITY** | | |
| **CAPITAL STOCK** — Note 6 | $ 537,856 | $ 537,856 |
| **RETAINED EARNINGS AND EXCESS OF APPRAISED VALUE OF LAND OVER COST** — Note 7 | $ 485,405 | $ 984,749 |
| | $1,023,261 | $1,522,605 |
| 4,000 Common Shares Purchased, at cost | 5,958 | 5,031 |
| | $1,017,303 | $1,517,574 |
| | $4,868,325 | $4,411,779 |

Approved on behalf of the Board:

B. DAVIS, *Director*

I. J. GROSMAN, *Director*

### AUDITORS' REPORT

To the shareholders of
DAVIS DISTRIBUTING LIMITED

We have examined the consolidated balance sheet of Davis Distributing Limited and subsidiary companies as at June 30, 1974 and the consolidated statements of earnings, retained earnings and excess of appraised value of land over cost, and changes in financial position for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1974 and the results of their operations and the changes in their financial position for the year ended on that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
September 20, 1974

RICHTER, USHER & VINEBERG,
*Chartered Accountants*

DAVIS Davis Distributing Limited

## CONSOLIDATED STATEMENT OF EARNINGS

| | For the Year Ended June 30 1974 | June 30 1973 (Note 8) |
|---|---|---|
| Sales | $22,308,250 | $22,259,087 |
| Cost of sales, operating and administrative expenses, exclusive of depreciation and interest | 22,068,518 | 21,814,826 |
| | $ 239,732 | $ 444,261 |
| Depreciation | $ 27,760 | $ 25,510 |
| Interest (including interest of $1,585 on long term debt, $1,732 – 1973) | 124,179 | 63,588 |
| | $ 151,939 | $ 89,098 |
| Earnings from continuing operations before Income Taxes | $ 87,793 | $ 355,163 |
| Provision for income taxes | 43,595 | 174,482 |
| Earnings from continuing operations | $ 44,198 | $ 180,681 |
| Loss from discontinued operations – Note 8 | (530,199) | (53,621) |
| Net earnings (loss) | $ (486,001) | $ 127,060 |
| Earnings (loss) per class A share and common share | | |
| Earnings from continuing operations | 8.9¢ | 36.2¢ |
| Net earnings (loss) | (97.6¢) | 25.5¢ |

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS AND EXCESS OF APPRAISED VALUE OF LAND OVER COST

| | 1974 | 1973 |
|---|---|---|
| Balance – beginning of year | $ 984,749 | $ 892,090 |
| Net earnings (Loss) | (486,001) | 127,060 |
| | $ 498,748 | $ 1,019,150 |
| Dividends | | |
| Class A shares – 1½¢ per share (5½¢ 1973) | $ 4,875 | $ 17,875 |
| Common shares – 2½¢ per share (9½¢ 1973) | 8,468 | 16,526 |
| | $ 13,343 | $ 34,401 |
| Balance – end of year | $ 485,405 | $ 984,749 |

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

| | 1974 | 1973 |
|---|---|---|
| Working capital was provided from | | |
| Operations | | |
| Net earnings | | $ 127,060 |
| Non cash charge to earnings – depreciation | | 25,510 |
| | | $ 152,570 |
| Proceeds from sale of equipment | $ 4,124 | 6,333 |
| | $ 4,124 | $ 158,903 |
| Working capital was used for | | |
| Operations | | |
| Net loss | $ 486,001 | |
| Non cash charge to earnings – depreciation | 27,760 | |
| | $ 458,241 | |
| Fixed asset additions, less long term financing of $37,500 | 39,447 | $ 25,850 |
| Mortgage Payments | 5,759 | 6,323 |
| Dividends | 13,343 | 34,401 |
| Purchase of common shares | 927 | 1,032 |
| | $ 517,717 | $ 67,606 |
| Increase (decrease) in working capital | $ (513,593) | $ 91,297 |
| Working capital – beginning of year | 1,117,495 | 1,026,198 |
| Working capital – end of year | $ 603,902 | $ 1,117,495 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1974

**NOTE 1 — BASIS OF CONSOLIDATION**

The consolidated financial statements include the accounts of Davis Distributing Limited and its wholly owned subsidiaries, Nathan Davis Vending Limited and Young-Robertson Limited.

All material inter-company amounts have been eliminated on consolidation.

**NOTE 2 — FIXED ASSETS**

Fixed assets are classified as follows:

| | At Cost Or As Stated | Accumulated Depreciation | Net Book Value |
|---|---|---|---|
| Land, at appraised value June 16, 1965 | $198,000 | | $198,000 |
| Building | 85,543 | $ 37,732 | 47,811 |
| Warehouse, vending and office equipment | 196,125 | 113,435 | 82,690 |
| Vehicles | 9,941 | 5,929 | 4,012 |
| Leasehold improvements | 77,627 | 16,495 | 61,132 |
| | $567,236 | $173,591 | $393,645 |

Depreciation rates adopted by the company are:

(a) On the diminishing balance method

Building — 5% per annum

Warehouse, vending and office equipment — 20% per annum

Vehicles — 30% per annum

(b) On the straight line method

Leasehold improvements — term of lease

**NOTE 3 — SECURITY FOR INDEBTEDNESS**

The accounts receivable have been pledged as security for the bank advances. A subsidiary has granted a floating charge debenture on its assets to a maximum of $400,000 to secure certain of its accounts payable and the company has guaranteed this debenture.

**NOTE 4 — 7% MORTGAGE PAYABLE**

The company's property at 162 Queen's Quay East, Toronto, has been pledged as security for the mortgage payable. The mortgage is repayable $447 monthly including interest and matures February 1, 1977.

**NOTE 5 — NOTE PAYABLE**

The note payable bears interest at 1% above the prevailing bank prime rate, and matures May 10, 1976.

**NOTE 6 — CAPITAL STOCK**

Authorized

500,000 class A shares without par value

1,835,000 common shares without par value

Issued

| | |
|---|---|
| 325,000 class A shares | $ 1,250 |
| 176,803 common shares | 536,606 |
| | $537,856 |

The class A shares are convertible at any time into fully paid common shares on a one for one basis.

No dividend may be declared on the class A shares in any financial period unless a dividend of the same or greater amount is or has been declared on the common shares in such financial period.

Options have been granted to employees to purchase up to 4,000 common shares at $1.75 per share until July 31, 1975. No material dilution of earnings would result from the exercise of these options.

On August 15, 1973, the company increased its authorized capital from 500,000 common shares without par value to 2,000,000 common shares without par value and changed the voting rights of the Class A shares to 10 votes per share.

On August 17, 1973, the company issued 165,000 common shares on the acquisition of the companies which owned and operated the McDermott Discount Stores and McDermott Drug Marts. Persuant to an agreement dated April 25, 1974 the company sold its interest in these subsidiaries and re-acquired the 165,000 common shares for cancellation. This transaction was completed on August 25, 1974, and has been reflected in the financial statement of June 30, 1974.

### NOTE 7 — RETAINED EARNINGS AND EXCESS OF APPRAISED VALUE OF LAND OVER COST

The retained earnings and excess of appraised value of land over cost includes $158,777 excess of appraised value of land over cost resulting from an appraisal on June 16, 1965.

### NOTE 8 — LOSS FROM DISCONTINUED OPERATIONS

i) During the year the company discontinued its high fidelity loudspeaker system distribution.

ii) During the year the company acquired the shares of the companies which owned and operated the McDermott Discount Stores and McDermott Drug Marts. The company sold its interests in these companies persuant to an agreement dated April 25, 1974 and accordingly the accounts of these companies are not included in the consolidated financial statements.

The loss from discontinued operations is comprised as follows and the 1973 consolidated statement of earnings has been restated to set these forth separately.

| | June 30 1974 | June 30 1973 |
|---|---|---|
| i) Loudspeaker Distribution | | |
| Sales | $154,035 | $150,075 |
| Cost of sales, loss on disposition of inventory, operating and administrative expenses exclusive of interest | $619,887 | $250,269 |
| Interest | 37,607 | 295 |
| Loss before income tax reduction | $503,459 | $100,489 |
| Income tax reduction realized on application of loss | 17,400 | 46,868 |
| Loss from loudspeaker distribution | $486,059 | $ 53,621 |
| ii) McDermott Companies | | |
| Loss on disposition | $ 44,140 | |
| Loss from discontinued operations | $530,199 | $ 53,621 |

### NOTE 9 — LEASE OBLIGATION

The company has a lease commitment expiring in 1989 for its warehouse at an annual rental of $78,027.

### NOTE 10 — REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid or payable by the company and its subsidiaries to directors and senior officers as defined by The Securities Act (1966) of Ontario for the fiscal year ended June 30, 1974 was $104,815.

### NOTE 11 — TAX LOSSES

A subsidiary has losses for tax purposes of approximately $460,000 which may be carried forward against income of future years up to 1979.

DAVIS Davis Distributing Limited

45 Logan Avenue, Toronto, Ontario M4M 2N1